

## Message Text

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ORIGIN INR-10

INFO OCT-01 AF-10 EUR-12 NEA-11 IO-13 ISO-00 SSM-03  
CIAE-00 DODE-00 /060 R

DRAFTED BY INR/RNA/NE:AAVACCARO:JVW  
APPROVED BY INR/RNA: AAVACCARO  
SSM:CWKONTOS  
DESIRED DISTRIBUTION  
SSM

-----034239 240208Z /12

P 232142Z JUN 78  
FM SECSTATE WASHDC  
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AMEMBASSY ALGIERS PRIORITY  
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TREASURY DEPARTMENT WASHDC 0000

C O N F I D E N T I A L STATE 160630

E.O. 11652: XGDS-2

TAGS: EG, IS, PINR

SUBJECT: INTSUM 592 - JUNE 23, 1978

LONDON FOR KINSOLVING  
PARIS FOR NICHOLAS MURPHY  
OTHER ADDRESSEES FOR CHIEFS OF MISSION

1. EGYPT. SADAT IS FACING SEVERE PROBLEMS IN THREE PRINCIPAL POLICY AREAS--LIBERALIZATION, ECONOMIC REFORM, AND HIS PEACE INITIATIVE. HIS LIBERALIZATION PROGRAM HAS INCLUDED THE ENDING OF THE POLICE STATE ATMOSPHERE WHICH HAD PREVAILED IN EGYPT UNDER NASSER. HE HAS TRIMMED THE WINGS OF THE SECRET POLICE, PERMITTED MUCH GREATER FREEDOM OF EXPRESSION, ALLOWED THE FORMATION OF OPPOSITION PARTIES, AND HELD THE ONLY FREE ELECTIONS SINCE INDEPENDENCE.

2. NEVERTHELESS, RECENT EVENTS MAY HAVE LED SADAT TO RECONSIDER SOME OF THESE ACTIONS. HE SEEMS MOST DISTURBED BY:

(A) SHARP CRITICISM OF HIM AND HIS FAMILY BY THE OPPOSITION AND THE PRESS, AND EVEN BY MEMBERS OF THE PEOPLE'S ASSEMBLY;

(B) THE RISE OF THE NEW WAFD PARTY, WHICH IS VIEWED AS A DIRECT CHALLENGE TO THE DOMINATION OF THE ELECTORAL  
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MIDDLE GROUND BY THE GOVERNMENT'S ARAB SOCIALIST UNION PARTY;

(C) THE HAUNTING MEMORY OF THE JANUARY 1977 RIOTS WHICH SEVERELY SHOOK HIS REGIME;

(D) THE GROWTH OF RIGHTWING EXTREMIST GROUPS, WHICH HAVE CREATED SEVERAL INCIDENTS INCLUDING THE KIDNAPPING AND MURDER OF A FORMER MINISTER; AND

(E) HIS FEELING OF BEING THREATENED BY THE SOVIET UNION AND ITS AGENTS.

3. WHILE STILL COMMITTED TO THE DEMOCRATIZATION OF EGYPT IN A THEORETICAL SENSE, SADAT NOW APPARENTLY BELIEVES THAT THE EGYPTIANS NEED FIRMER CONTROL AND ARE NOT YET PREPARED FOR WEST EUROPEAN-STYLE DEMOCRACY. WE DO NOT HAVE A CLEAR PICTURE OF HOW FAR HE WILL STEP BACK FROM HIS LIBERALIZATION PROGRAM, BUT THERE IS LITTLE DOUBT THAT HE HAS DETERMINED THAT SOME FREEDOMS MUST BE CURTAILED TO PREVENT ABUSES. MUCH OF THE PROGRAM WHICH HE HAS INSTITUTED IS LIKELY TO BE RETAINED, HOWEVER.

4. SADAT ALSO SEEMS TO HAVE STEPPED BACK FROM HIS ECONOMIC REFORMS. THE "NEW RICH" CLASS, WHICH HAS MADE HUGE FORTUNES SINCE SADAT LIFTED MANY GOVERNMENT CONTROLS, HAS BECOME A POLITICAL LIABILITY IN A COUNTRY AS POOR AS EGYPT. GREATER ECONOMIC FREEDOM HAS LED TO PROFITEERING AND OTHER ABUSES BY A FEW, WHILE MOST EGYPTIANS PERCEIVE THEIR STANDARD OF LIVING AS HAVING DECLINED. IN ORDER TO IMPROVE HIS GOVERNMENT'S IMAGE IN THIS SPHERE, SADAT HAS MOVED AGAINST SOME OF THE HIGHLY PUBLICIZED "DEVELOPMENT" SCHEMES THAT HAVE ENRICHED THE NEW ELITE. WE BELIEVE THAT HE MAY EVEN REINSTITUTE SOME OF THE FORMER ECONOMIC CONTROLS TO PROTECT THE POOR AND TO RESTRICT THE REEMERGENCE OF A NEW PASHA CLASS.

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5. THE APPARENT FAILURE--OR AT LEAST THE PROTRACTED IMPASSE--OF HIS PEACE INITIATIVE HAS COMPOUNDED HIS PROBLEMS IN THE OTHER TWO SPHERES. WHILE SADAT CONTINUES TO ASSERT PUBLICLY THAT HE WILL PRESS ON WITH HIS EFFORTS DESPITE THE REFUSAL OF THE ISRAELIS TO BE MORE FORTHCOMING, HE MAY BE RETHINKING HIS CURRENT COURSE OF ACTION. (CONFIDENTIAL)

6. ISRAEL. OUR JERUSALEM CONSULATE GENERAL REPORTED THAT WEIZMAN, DURING HIS JUNE 20 VISIT TO NABLUS, HEBRON, AND NEARBY ISRAELI SETTLEMENTS, EXHIBITED UNPRECEDENTED ISRAELI FLEXIBILITY. IN NABLUS, HE APPROVED THE PURCHASE OF NEW GENERATORS TO EXPAND THE MUNICIPAL ELECTRICAL PLANT, REVERSING ISRAEL'S LONGSTANDING POLICY. HE ALSO GAVE THE GO-AHEAD FOR THE DRILLING OF NEW WATER WELLS, AND PROMISED TO CURB THE OVERZEALOUS SECURITY SEARCHES CONDUCTED BY IDF TROOPS IN THE AREA. IN HEBRON, HE APPROVED THE RETURN OF TWO PROMINENT DEPORTEES, LOCAL HOSPITAL IMPROVEMENTS, AND INCREASES IN ELECTRICAL POWER. REGARDING THE JEWISH SETTLEMENTS, HE GAVE HIS GENERAL SUPPORT, BUT AFFIRMED THE ISRAELI GOVERNMENT'S RESPECT FOR PRIVATE ARAB PROPERTY. WEST BANK MAYORS WERE VERY PLEASED WITH WEIZMAN'S PRONOUNCEMENTS, BUT THE WEST BANK PRESS TOOK PAINS TO DISASSOCIATE MUNICIPAL COOPERATION WITH WEIZMAN FROM COLLABORATION WITH BEGIN'S AUTONOMY SCHEME. (CONFIDENTIAL) VANCE

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## Message Attributes

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**Decaption Date:** 01 jan 1960  
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**Disposition Approved on Date:**  
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**Disposition Comment:** 25 YEAR REVIEW  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014